### OREGON SCHOOL BOARDS ASSOCIATION ANNUAL FINANCIAL REPORT Year Ended June 30, 2010

#### **BOARD OF DIRECTORS**

<u>Name</u>	Address	<b>Position</b>
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Scott Reynolds	Bend, Oregon	Director
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#### **EXECUTIVE DIRECTOR**

Kevin McCann 1201 Court Street NE Salem, Oregon

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CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS 475 Cottage Street NE, Suite 200, Salem, Oregon 97301 (503) 581-7788

#### INDEPENDENT AUDITOR'S REPORT

Board of Directors Oregon School Boards Association Salem, Oregon

We have audited the accompanying financial statements of the governmental activities, the discretely presented component units, and each major fund of Oregon School Boards Association (OSBA), as of and for the year ended June 30, 2010, which collectively comprise the Association's basic financial statements as listed in the foregoing table of contents. These financial statements are the responsibility of OSBA's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component units, and each major fund of Oregon School Boards Association as of June 30, 2010, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was made for the purpose of forming opinions on the financial statements that collectively comprise Oregon School Boards Association's basic financial statements as a whole. The schedule of revenues, expenditures and changes in fund balance - budget and actual, and the schedule of amounts due to others are presented for

purposes of additional analysis and are not required parts of the financial statements of Oregon School Boards Association. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

GROVE, MUELLER & SWANK, PC CERTIFIED PUBLIC ACCOUNTANTS

By:

Charles A. Swank, A Shareholder November 1, 2010



MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2010

As management of Oregon School Boards Association (OSBA), we offer readers of OSBA's financial statements this narrative overview and analysis of the financial activities of the Association for the fiscal year ended June 30, 2010.

#### **Financial Highlights**

The assets of the Oregon School Boards Association exceeded its liabilities at the close of the most recent fiscal year by \$79,568,969 (net assets). Of this amount, \$50,000,000 is restricted. The remaining \$29,568,969 (unrestricted net assets) may be used to meet the OSBA's ongoing obligations to members and creditors.

The Oregon School Boards Association's total net assets increased by \$6,608,510 during the fiscal year ended June 30, 2010.

The Oregon School Boards Association continued to operate without the need for debt borrowing during the current fiscal year.

Revenues totaled \$11 million and expenses totaled approximately \$4.5 million for the year.

#### **Overview of the Financial Statements**

The discussion and analysis is intended to serve as an introduction to the Oregon School Boards Association's basic financial statements. This annual report consists of three parts: management's discussion and analysis (this section), the financial statements, and required supplementary information. The basic financial statements comprise three components: 1) association-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains supplementary information. The Oregon School Boards Association is established under the authority of Chapter 190 of the Oregon Revised Statutes as an intergovernmental entity engaged only in providing services to Oregon school districts. The reporting entity includes two discretely presented component units, Oregon School Boards Association Property and Casualty Trust and Oregon School Boards Association Property and Casualty Coverage for Education Trust.

The *association-wide financial statements* are designed to provide readers with a broad overview of OSBA's finances, in a manner similar to a private-sector business.

The *Statement of Net Assets* includes all of OSBA's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets are an indicator of whether OSBA's financial position is improving or deteriorating, respectively.

The *Statement of Activities* presents information showing how OSBA's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., accounts receivable and earned but unused compensated absences).

#### **Fund Financial Statements**

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Oregon School Boards Association, like other governmental entities, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the activities of Oregon School Boards Association are reported as a single fund.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued) JUNE 30, 2010

#### **Fund Financial Statements** (Continued)

The fund is used to account for essentially the same functions reported in the entity-wide financial statements. Unlike the entity financial statements, the fund financial statements focus on near term inflows and outflows of spendable resources as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating near-term financial requirements.

#### **Notes to the Financial Statements**

The notes provide additional information that is essential to a full understanding of the financial data provided in the financial statements. The notes to the financial statements can be found on pages 13 through 31 of this report.

#### **Other Information**

In addition to the basic financial statements and accompanying notes, this report also presents certain *supplementary information* that further explains and supports the financial statements with a comparison of OSBA's budget for the year. There were no changes to the Association's budget during the year, nor were there any significant variances from budget. The supplementary information can be found on pages 32 through 33 of this report.

#### **Using this Annual Report**

OSBA's annual report consists of financial statements that show information about OSBA's activities. In addition, other activities which OSBA administers are shown as supplemental information. OSBA has established controls to manage funds for particular purposes and to show that it is meeting legal responsibilities to membership. OSBA uses the full accrual method of accounting in which all assets and all liabilities associated with its operation are included on the statement of net assets. The focus is on income measurement, which, together with the maintenance of equity, is an important financial indication.

Our auditor has provided assurance in their independent auditor's report, located immediately preceding this Management Discussion and Analysis, that the basic financial statements are fairly stated. Varying degrees of assurance are being provided by the auditor regarding the other information included in this report. A user of this report should read the independent auditor's report carefully to ascertain the level of assurance being provided for each of the other parts of this report.

 ${\it MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)} \\ {\it JUNE 30, 2010}$ 

## **Financial Analysis**

The Oregon School Boards Association's net assets were \$79,568,969 at June 30, 2010. Of this amount, \$27,706,707 was unrestricted, \$50,000,000 was restricted and \$1,862,262 was invested in capital assets.

# Condensed Statement of Net Assets as of June 30,

	2010	2009
Net Assets		
Current Assets	\$ 78,378,786	\$ 71,825,384
Capital Assets, Net	1,862,262	1,896,872
Total Assets	80,241,048	73,722,256
Current Liabilities	672,081	761,797
Net Assets		
Invested in Capital Assets	1,862,262	1,896,872
Restricted	50,000,000	50,000,000
Unrestricted	27,706,707	21,063,587
Total Net Assets	\$ 79,568,969	\$ 72,960,459
Condensed Statement of Activities as of June 30,		
	2010	2009
Revenues		
Program Revenues	\$ 8,250,589	\$ 3,114,883
General Revenues	2,802,246	2,916,684
Total Revenues	11,052,835	6,031,567
Expenses		
General Operations	4,396,693	4,989,664
Depreciation	47,632	45,197
Total Expenses	4,444,325	5,034,861
Equity transfer from EBIT		65,762,868
Increase in Net Assets	\$ 6,608,510	\$ 66,759,574

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued) JUNE 30, 2010

#### **Capital Assets**

At June 30, 2010, the Oregon School Boards Association had \$1,862,262 invested in capital assets. This amount represents a net decrease (including additions, deductions and depreciation) of \$34,610 from last year.

#### **Investment in Local Government Center Trust**

OSBA is a participant with the Association of Oregon Counties and the League of Oregon Cities in the Local Government Trust (LGCT). The Trust is governed by three trustees, one each from the participating organizations all having an equal vote in the operations. The LGCT is a trust established by agreement among the three associations to operate the Trust and maintain its property. OSBA maintains an ongoing financial responsibility for its share of liabilities for its proportional share of any contracts entered into while bound by the intergovernmental agreement. OSBA maintains an undivided one third interest in the property held by the Trust.

#### **Economic Factors and Next Year's Budgets and Rates**

The Oregon School Boards Association is primarily dependent upon member dues, contract services and investment earnings for the funding of operations; and is therefore affected by local economic conditions. The 2008-09 fiscal year represented a change in OSBA's revenue dependence. A primary resource for the organization has been endorsement fees collected from several pooled insurance programs. The largest of those pools, the Employee Benefits Insurance Trust, has stopped doing business as a result of legislative action. The dissolution of the Trust resulted in a significant transfer of financial reserves to OSBA pursuant to the Trust Agreement. These reserves are being held in an endowment with the investment earnings being made available to fund OSBA's operations. The budget for 2010-11 has already been approved by the Board and no major changes are expected, although the Association will closely monitor rates of return on their various investments to determine if any changes will be required during the course of the year.

#### Contacting the Oregon School Boards Association's Financial Management

Our financial report is designed to provide our citizens and creditors with a general overview of the Oregon School Boards Association's finances and to show the Oregon School Boards Association's accountability for the money it receives. If you have questions about this report or wish to request additional financial information, contact Sharon Addison of Oregon School Boards Association.



		Component Units			
	Oregon School Boards Association	Legal Assistance Trust	Property and Casualty Coverage for Education		
ASSETS					
Current Assets					
Cash and cash equivalents	\$ 17,276,835	\$ 568,278	\$ 551,596		
Investments in federal securities (at fair value)	60,176,567	-	24,595,120		
Accounts receivable	289,576	-	1,026,958		
Interest receivable	604,148	-	194,310		
Prepaid expenses	31,660		36,601		
Total Current Assets	78,378,786	568,278	26,404,585		
Capital Assets, net	381,202	-	-		
Investment in Local Government Center Trust	1,481,060				
Total Assets	80,241,048	568,278	26,404,585		
LIABILITIES					
Current Liabilities					
Accounts payable	180,869	68,795	148,575		
Accrued compensated absences	201,510	-	-		
Claims and claims adjustment expense payable	-	-	10,995,730		
Payroll liabilities	10,011	-	-		
Deferred revenue:					
Member dues	159,104	31,400	-		
Publication subscription	40,673	-	-		
Conference fees	2,785	-	-		
Deferred premiums	-	-	572,477		
Due to others	68,587	-	-		
Security deposit	8,542	-			
Total Liabilities	672,081	100,195	11,716,782		
NET ASSETS					
Investment in capital assets	1,862,262	-	-		
Restricted	50,000,000	-	3,085,450		
Unrestricted	27,706,707	468,083	11,602,353		
Total Net Assets	\$ 79,568,969	\$ 468,083	\$ 14,687,803		

STATEMENT OF ACTIVITIES YEAR ENDED JUNE 30, 2010

			Component Units	
	Oregon School Boards Association	Legal Assistance Trust	Property and Casualty Trust	Property and Casualty Coverage for Education
REVENUES				
Program Revenues				
Membership dues	\$ 700,619	\$ 173,700	\$ -	\$ -
Insurance trusts management fees	6,282,402	-	-	-
Convention and conference	78,037	-	-	-
Sale of publications	178,144	-	-	-
Contract services	1,011,387	-	-	-
Premiums				21,091,358
Total Program Revenues	8,250,589	173,700	-	21,091,358
General Revenues				
Interest	2,519,855	3,742	17,914	659,412
Rental income	133,713	-	-	-
Sale of automobiles	16,511	-	-	-
Gain/(loss) on investments	122,179	-	-	11,267
Miscellaneous income	9,988			
Total General Revenues	2,802,246	3,742	17,914	670,679
Total Revenues	11,052,835	177,442	17,914	21,762,037
EXPENSES				
Personnel services	3,569,085	-	-	-
Legislative	16,208	-	-	-
Travel and auto	226,442	-	-	-
Professional development	65,288	-	-	-
Publications	10,857	-	-	-
Office expense	231,500	1,988	-	-
Dues and subscriptions	120,797	-	-	-
Building and lot	114,843	-	-	-
Board of Directors projects	28,574	-	-	-
Legal and accounting fees	2,022	83,795	-	_
Technical connections	3,302	-	-	-

					Compo	onent Units		
EXPENSES (Continued)	i I	Oregon School Boards sociation	A	Legal ssistance Trust	Pi and	operty Casualty Trust	c	roperty and Casualty overage for Education
	_		_		_			
Loss and loss adjustment	\$	-	\$	-	\$	=	\$	5,870,703
Depreciation		47,632		-		-		- 0.740.016
Insurance premiums		=		=		460 411		8,749,916
Claims and adjustments Actuarial valuation adjustment		-		-		469,411 (436,353)		-
Agent commissions		<u>-</u>		<u>-</u>		(430,333)		2,000,406
Administrative		7,775		_		_ _		307,524
Contract fees		-		_		_		1,529,400
Other		_				4,840		-
Total Expenses		4,444,325		85,783		37,898		18,457,949
CHANGE IN NET ASSETS		6,608,510		91,659		(19,984)		3,304,088
Equity transfer to Oregon School Boards Association Property and Casualty Casualty Coverage for Education		<u>-</u>		_	(	2,460,177)		2,460,177
					(	,,)		., , - / /
NET ASSETS, Beginning of year		72,960,459		376,424		2,480,161		8,923,538
NET ASSETS, End of year	\$	79,568,969	\$	468,083	\$	-	\$	14,687,803

BALANCE SHEET JUNE 30, 2010

ASSETS	
Cash and cash equivalents	\$ 9,293,257
Investments	68,160,145
Accounts receivable	289,576
Interest receivable	604,148
Prepaid expenses	 31,660
Total Assets	78,378,786
LIABILITIES	
Accounts payable	180,868
Accrued payroll taxes and benefits	10,011
Deferred revenue	 279,691
Total Liabilities	 470,570
FUND BALANCE	
Reserved	50,000,000
Unreserved	27,908,217
Total Fund Balance	\$ 77,908,217

RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET ASSETS JUNE 30, 2010

Total budgetary fund balance	\$ 77,908,217
The budgetary fund balance is different than net assets because:	
Capital assets are not financial resources and therefore are not reported	
as assets for budgetary purposes. The cost of the assets is \$997,564 and the accumulated depreciation is \$639,149.	381,202
Investment in Local Government Center Trust is not a financial resource and therefore is not reported as assets for budgetary purposes.	1,481,060
Compensated absences are not current financial expenses and therefore are not reported as liabilities for budgetary purposes.	(201,510)
Total Net Assets	\$ 79,568,969

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES YEAR ENDED JUNE 30, 2010

REVENUES	
Membership dues	\$ 700,619
Interest	2,519,855
Insurance trusts management fees	6,282,402
Convention and conference	78,037
Sale of publications	178,144
Contract services	1,011,387
Rental income	133,713
Sale of automobiles	16,511
Gain/loss on investments	179,576
Miscellaneous income	9,988
Total Revenues	11,110,232
EXPENDITURES	
Personnel Services	
Salaries	2,358,797
Payroll assessment	1,105,136
Contract services/other	94,334
Total Personnel Services	3,558,267
Legislative	
Legislative committee	15,954
Legislative report	254
Total Legislative	16,208
Travel	
Officers and committee	123,352
Staff	77,124
Automobile expense	25,966
Automobile purchase	70,419
Total Travel	296,861
Professional Development	65,288
Publications	
Superintendent search	4,382
PR in action	4,695
Flyers and brochures	270
Miscellaneous publications	1,510
Total Publications	10,857

EXPENDITURES (Continued)	
Office Expense Audit, insurance, bonds Telephone and video conferencing Postage Supplies and photocopies Equipment maintenance Equipment purchase	\$ 80,317 10,147 27,983 90,872 12,173 17,783
Total Office Expense	239,275
Dues and Subscriptions National School Boards Association Other	75,582 45,215
Total Dues and Subscriptions	120,797
Building and Lot Building operations Building reserve	102,843 12,000
Total Building and Lot	114,843
Board of Directors Projects	28,574
Legal Fees	2,022
Technical Connections	3,302
Total Expenditures	4,456,294
REVENUES OVER EXPENSES	6,653,938
FUND BALANCE, Beginning of year	71,254,279
FUND BALANCE, End of year	\$ 77,908,217

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE TO THE STATEMENT OF ACTIVITUES JUNE 30, 2010

Net change in budgetary fund balances	\$ 6,653,938
Amounts reported in the Statement of Activities are different because:	
Budgetary accounting reports capital outlay as an expenditure. However, in the Statement of Activities, the cost of those assets is allocated over	
their estimated useful lives and reported as depreciated expense. This amount is the difference between capital outlay \$63,743 and depreciation (\$45,197).	22,787
Budgetary accounting does not report compensated absences. However,	
in the Statement of Activities the cost of compensated absences is expensed.	(10,818)
Change in investment in Local Government Center Trust.	 (57,397)
Change in Net Assets	\$ 6,608,510

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2010

#### SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Organization

The Oregon School Boards Association (OSBA) was organized in 1946 in Eugene, Oregon. It is a voluntary association of local boards of education organized under Oregon Revised Statutes Chapter 190. The primary sources of revenue are from investment earnings, contract income for services rendered and membership dues. Dues are collected from member districts annually, membership is voluntary.

#### Financial Statements

Any school district, education service district, or community college can become a member of OSBA by applying and paying the annual membership dues. Membership can be terminated by a district at any time. OSBA can terminate membership for non-payment of fees. Charter schools may become associate members with no voting rights.

The financial statements of OSBA have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the activities of OSBA. Program revenues include: a) membership dues, and b) other program related revenues that are restricted to meeting operational or capital requirements. Other items not properly included among program revenues are reported instead as general revenues.

The more significant of the government's accounting policies are described below:

#### Reporting Entity

In evaluating how to define OSBA, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP. The basic-but not the only-criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits OSBA and/or its citizens, or whether the activity is conducted within the geographic boundaries of OSBA and is generally available to its citizens. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether OSBA is able to exercise oversight responsibilities. Based upon the application of these criteria, OSBA has three component units which require disclosure. Separate financial statements for OSBA Legal Assistance Trust, OSBA Property Casualty Insurance Trust and the OSBA Property and Casualty Coverage for Education Trust can be obtained from OSBA.

Effective July 1, 2008, the OSBA Employee Benefits Insurance Trust discontinued its operations. At that time, the Trust's balances were transferred to the Association pursuant to the Trust Agreement. The resolution for dissolution called for an establishment of a \$50,000,000 reserve to protect the funds in a manner consistent with the agreement. An additional reserve of \$15,000,000 is available only upon a majority vote by the Board. These reserves are being held in an endowment with the investment earnings being made available to fund OSBA's operations.

NOTES TO FINANCIAL STATEMENTS (Continued) YEAR ENDED JUNE 30, 2010

#### **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Basis of Presentation and Method of Accounting

The association-wide financial statements (i.e., the statement of net assets and the statement of activities) present financial information about OSBA as a whole. The information includes all of the non-fiduciary activities of OSBA.

The accompanying financial statements are presented in conformity with accounting principles generally accepted in the United States of America (GAAP) applicable to government entities.

The statement of net assets and statement of activities display information about the reporting entity as a whole. These statements focus on the sustainability of the Association as an entity and the change in aggregate financial position resulting from the activities of the year. These statements are reported using the economic resources measurement focus and the accrual method of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of cash flows.

The accounts of the Association are organized in a single fund which is used to account for the Association's activities. Revenues are principally from membership dues, investment earnings and services. This fund is reported on the balance sheet and statement of revenues, expenditures and changes in fund balance using the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures generally are recorded when a liability is incurred.

When expenses are paid for purposes in which both restricted and unrestricted net assets are available, the Association deems restricted net assets to be spent first.

#### Cash and Cash Equivalents

For financial reporting purposes, OSBA considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents including the investment in the Local Government Investment Pool.

#### Investments

The Association carries its investment in marketable bonds at fair value. The fair value of publicly traded bonds is based on quoted market prices. Accordingly, unrealized gains or losses are recorded for the increase or decrease in the fair value of assets from the beginning of the year to the end of the year.

Oregon statutes authorize the Association to invest in general obligations of the U.S. Government and its agencies, certain bonded obligations of Oregon municipalities, bank repurchase agreements, bankers' acceptances, commercial paper, and the Oregon State Treasurer's Local Government Investment Pool, among others. In addition, the Association maintains an investment policy which is re-adopted annually by the Board.

Investment income is composed of interest and net changes in the fair value of applicable investments. Investment income is included in other local revenue in the fund financial statements.

Investments are held by a third party in the name of the Association.

NOTES TO FINANCIAL STATEMENTS (Continued) YEAR ENDED JUNE 30, 2010

#### **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Accounts Receivable

Accounts receivable represent member dues, amounts due from reinsurance providers, fees for services provided as well as various miscellaneous refunds. Due to the nature of the receivables and the likelihood of collection, no provision for uncollectibles has been made.

#### Capital Assets

Capital assets which include land and improvements, buildings and improvements, vehicles, furniture, equipment and construction in progress, are reported in the association-wide financial statements.

Capital assets are defined by the Association as assets with an initial, individual cost in excess of \$5,000 and an estimated useful life of more than one year. Such assets are recorded at historical cost, or estimated historical cost if purchased or constructed. Donated capital assets are recorded at the estimated fair market value at the date of the donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Capital assets are depreciated using the straight line method over the following estimated useful lives:

Buildings improvements 15 years Vehicles, furniture and equipment 3-5 years

#### Compensated Absences Payable

The OSBA's employee vacation and sick leave policies generally provide for granting vacation and sick leave with pay. The current and long-term liabilities for vested or accumulated vacation leave, compensatory time, and retirement benefits are reported on the government-wide financial statements. Total unpaid compensated absences at June 30, 2010 were recorded on the books of the Association based on total vested hours multiplied by current wage rates.

No liability is recorded for non-vesting accumulating rights to receive sick pay benefits.

Income Taxes

The Association is exempt from Federal income taxes under Internal Revenue Code Section 115.

#### Property Taxes

The Association is exempt from taxes for all real and personal property, including property held under lease or lease purchase agreements under ORS 456.220 and ORS 456.225 of Oregon Law.

#### Deferred Revenue

The Association reports deferred revenue on its statement of net assets. Deferred revenues arise when resources are received by the Association before it has a legal claim to them, as when dues are received prior to the incurrence of qualifying earning period. In subsequent periods, when the Association has a legal claim to the resources, the liability for deferred revenue is removed from the statement of net assets and revenue is recognized.

NOTES TO FINANCIAL STATEMENTS (Continued) YEAR ENDED JUNE 30, 2010

#### **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

#### Retirement Plans

Substantially all of OSBA employees are participants in the State of Oregon Public Employees Retirement System (PERS). Contributions to PERS are made on a current basis as required by the plan and are charged as expenses.

#### Risk Management

The Association is exposed to various risks to loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Association carries commercial insurance for risks of loss including worker's compensation, property, general liability, umbrella, automobile liability, directors and officers liability, and employee dishonesty coverage. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years.

#### Budgets and Budgetary Accounting

Operating budgets in accordance with ORS 294.900 are adopted each year on a modified accrual basis of accounting. The administrative and fiscal staff prepares a budget for each of the separate projects and for the total operation of OSBA. The budget is submitted to the Board of Directors for approval, modification, and adoption.

#### Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reporting amounts of certain assets, liabilities, revenues and expenses. Actual results may differ from such estimates. Financial statement items particularly sensitive to estimates are the allowance for doubtful accounts, and the useful lives of property and equipment.

#### CASH AND CASH EQUIVALENTS

Cash	
Cash on hand	\$ 175
Demand deposits with financial institutions	4,102,312
Investments	
Local Government Investment Pool	5,190,770
Umpqua Bank money market account	 7,983,578
Total Cash and Cash Equivalents	\$ 17,276,835

#### Deposits

At June 30, 2010, the Association's deposits with various financial institutions had a bank value of \$17,397,745.

NOTES TO FINANCIAL STATEMENTS (Continued) YEAR ENDED JUNE 30, 2010

#### CASH AND CASH EQUIVALENTS (Continued)

Custodial Credit Risk - Deposits

The Association has an agreement with West Coast Bank that all deposits maintained in non-interest bearing accounts are covered under FDIC insurance regardless of balance.

#### Investments

The State Treasurer of the State of Oregon maintains the Oregon Short-term Fund, of which the Local Government Investment Pool is part. Participation by local governments is voluntary. The State of Oregon investment policies are governed by statute and the Oregon Investment Council. In accordance with Oregon Statutes, the investment funds are invested as a prudent investor would do, exercising reasonable care, skill and caution. The Oregon Short-term Fund is the LGIP for local governments and was established by the State Treasurer. It was created to meet the financial and administrative responsibilities of federal arbitrage regulations. The investments are regulated by the Oregon Short-term Fund Board and approved by the Oregon Investment Council (ORS 294.805 to 294.895). At June 30, 2010, the fair value of the position in the Oregon State Treasurer's Short-term Investment Pool was approximately equal to the value of the pool shares. The investment in the Oregon Short-term Fund is not subject to risk evaluation. The LGIP is not rated for credit quality. Separate financial statements for the Oregon Short-term Fund are available from the Oregon State Treasurer.

#### Custodial Risk - Investments

The LGIP is administered by the Oregon State Treasury with the advice of other state agencies and is not registered with the U.S. Securities and Exchange Commission. The LGIP is an open-ended no-load diversified portfolio offered to any agency, political subdivision, or public corporation of the state that by law is made the custodian of, or has control of any fund. The LGIP is commingled with the State's short-term funds.

In seeking to best serve local governments of Oregon, the Oregon Legislature established the Oregon Short Term Fund Board, which has established diversification percentages and specifies the types and maturities of the investments. The purpose of the Board is to advise the Oregon State Treasury in the management and investment of the LGIP. These investments within the LGIP must be invested and managed as a prudent investor would, exercising reasonable care, skill and caution. Professional standards indicate that the investments in external investment pools are not subject to custodial risk because they are not evidenced by securities that exist in physical or book entry form. Nevertheless, management does not believe that there is any substantial custodial risk related to investments in the LGIP.

NOTES TO FINANCIAL STATEMENTS (Continued) YEAR ENDED JUNE 30, 2010

#### **INVESTMENTS**

At June 30, 2010, the Association's investment balances were as follows:

				Investment Maturities		
D	Face		Fair Less than			18-60
Description	Amount		Value	18 months	_	months
Allstate Life Global - 5.375%,						
due 4/30/13	\$ 1,035,497	\$	1,096,470	\$ -	\$	1,096,470
Bank of America - 4.5%, due 4/1/15	1,014,760	•	1,010,721	-	*	1,010,721
Bank of America - 5.0%, due 2/3/14	970,091		1,034,824	-		1,034,824
Bank of America - 6.15%,	,		, ,			
due 4/25/13	1,739,062		1,737,352	-		1,737,352
Bear Sterns - 4.5%, due 10/28/10	1,008,630		1,011,791	1,011,791		-
FFCB - 3.15%, due 1/12/15	2,000,000		2,001,875	-		2,001,875
FHLMC - 3.0%, due 4/15/15	2,000,000		2,032,932	-		2,032,932
FHLMC - 3.0%, due 5/18/15	2,000,000		2,018,040	-		2,018,040
FHLMC - Step Mt Notes,						
due 2/26/15	2,000,000		2,005,002	-		2,005,002
FHLMC - Step Mt Notes,			•			
due 3/30/15	2,000,000		2,006,602	-		2,006,602
FNMA - 2.0%, due 8/26/13	997,250		1,002,187	-		1,002,187
FNMA - 2.5%, due 7/29/13	1,002,250		1,001,563	-		1,001,563
FNMA - 2.87%, due 12/10/14	1,000,000		1,010,313	-		1,010,313
FNMA - 3.0%, due 10/23/14	2,000,000		2,003,125	-		2,003,125
FNMA - 3.0%, due 5/26/15	1,000,000		1,006,563	-		1,006,563
FNMA - 3.05%, due 11/10/14	997,733		1,003,125	-		1,003,125
FNMA - 3.125%, due 1/28/15	1,009,400		1,016,562	-		1,016,562
FHLB - 2.25%, due 7/29/13	1,000,000		1,001,562	-		1,001,562
FHLB - 3.0%, due 10/26/14	2,000,000		2,013,750	-		2,013,750
FHLB - 3.0%, due 12/10/10	1,499,797		1,518,281	1,518,281		-
FHLB - 3.0%, due 3/2/15	2,000,000		2,008,750	-		2,008,750
FHLB - 3.0%, due 3/23/15	1,000,000		1,005,313	-		1,005,313
FHLB - 3.0%, due 4/20/15	2,998,000		3,022,500	-		3,022,500
FHLB - 3.0%, due 9/10/10	1,775,000		1,784,430	1,784,430		-
FHLB - 3.1%, due 4/27/15	1,000,000		1,001,875	-		1,001,875
FHLB - 3.125%, due 6/10/11	998,611		1,022,500	1,022,500		
GE Cap Corp - 3.75%, due 11/14/14	1,027,012		1,022,983	-		1,022,983
GE Cap Corp - 5.0%, due 2/1/13	2,073,309		2,171,519	-		2,171,519
Hudson United Bk - 7.0%,						
due 5/15/12	2,094,221		2,129,410	-		2,129,410

NOTES TO FINANCIAL STATEMENTS (Continued) YEAR ENDED JUNE 30, 2010

#### **INVESTMENTS** (Continued)

			Investment Maturities			
	Face	Fair	Sair Less than 18-			
Description	Amount	Value	Value 18 months			
JP Morgan Chase - 3.7%,						
due 1/20/15	\$ 1,015,170	\$ 1,022,845	\$ -	\$ 1,022,845		
JP Morgan Chase - 5.75%,						
due 1/2/13	1,093,630	1,075,525	-	1,075,525		
Key Bank NA - 5.091%,						
due 3/26/15	1,050,080	1,042,666	-	1,042,666		
Key Bank NA - 5.5, due 9/17/12	1,860,232	1,890,222	-	1,890,222		
Key Bank NA - 5.7, due 8/15/12	939,856	938,391	-	938,391		
Merrill Lynch BAC - 6.05%,						
due 8/15/12	1,084,551	1,063,246	-	1,063,246		
Met Travelers Life - 5.125%,						
due 8/15/14	542,675	551,112	-	551,112		
Metro Life - 5.125%, due 11/9/11	1,068,549	1,091,517	1,091,517	-		
Pacificorp 1st - 8.95%, due 9/1/11	1,123,850	1,073,310	1,073,310	-		
PRICOA - variable, due 5/24/11	938,381	990,945	-	990,945		
Principal Life - 5.25%, due 1/15/13	1,079,720	1,060,426	-	1,060,426		
Rabobank - 3.2%, due 3/11/15	999,530	1,011,047	-	1,011,047		
US Bank - 4.95%, due 10/30/14	542,888	544,892	-	544,892		
Wachovia - 4.875%, due 2/1/15	1,047,620	1,048,035	-	1,048,035		
Wachovia - 5.3%, due 10/15/11	1,012,174	1,046,638	-	1,046,638		
Wells Fargo - 3.75%, due 10/1/14	1,018,614	1,023,830	1,023,830			
		\$ 60,176,567	\$ 8,525,659	\$ 51,650,908		

#### Investment Objectives

- a. To assure the safety of principal.
- b. To retain liquidity to meet projected or unexpected cash needs.
- c. To attain the best possible total return (yield and market appreciation) while retaining liquidity and minimizing risk.
- d. To comply with the provisions of Chapter 294 of Oregon Revised Statutes.

NOTES TO FINANCIAL STATEMENTS (Continued) YEAR ENDED JUNE 30, 2010

#### **INVESTMENTS** (Continued)

Investment Securities and Diversification

#### Acceptable Investments:

- 1. General obligations of the United States issued as U.S. Treasury Bills, Notes and Bonds and Federal Agency securities
- 2. Obligations of Oregon and its respective political subdivisions having a long-term rating of A or an equivalent rating or better, or are rated in the highest category for short-term municipal debt by a nationally recognized statistical rating organization.
- 3. Lawfully issued debt of Washington, Idaho and California and their respective political subdivisions having a long-term rating of AA or an equivalent rating or better, or are rated in the highest category for short-term municipal debt by a nationally recognized statistical rating organization.
- 4. Negotiable Certificates of Deposit of banks, mutual savings banks and savings and loan associations which maintain a head office or branch in the state of Oregon.
- 5. Fixed or Variable Life Insurance or Annuity Contracts and Guaranteed Investment Contracts issued by life insurance companies authorized to do business in Oregon.
- 6. Deferred Compensation Funds used by other public employers if the Trust is a public instrumentality of such public employers and is described as set forth in ORS 294.035(7).
- 7. Banker's Acceptance of qualified financial institutions pursuant to Oregon law. Guaranteed by and carried on the books of a qualified financial institution defined as financial institution located and licensed to do business in the state of Oregon or a financial institution licensed and qualified to do business in the states of California, Idaho and Washington that is wholly-owned by a bank-holding company that owns a financial institution that is located and licensed to do banking business in the state of Oregon and the obligation is eligible for discount by the Federal Reserve System and issued by a qualified financial institution whose short-term letter of credit rating is rated in the highest category by one or more nationally recognized statistical rating organization.
- 8. Corporate Indebtedness: Commercial Paper, Bonds and MTNS.
- 9. Securities of any open- and/or closed-end management investment company or investment trust subject to the limitations set forth in ORS 294.035(10).
- 10. Repurchase Agreements: Only securities described in paragraph 1 above shall be used in conjunction with repurchase agreements and such securities shall have a maturity of not longer than three years. The price paid for such securities may not exceed amounts or percentages prescribed by Oregon statute.

NOTES TO FINANCIAL STATEMENTS (Continued) YEAR ENDED JUNE 30, 2010

#### **INVESTMENTS** (Continued)

#### Portfolio Diversification:

To support the stated investment objectives, the Association's funds will be diversified to sufficiently minimize risk as well as to assure adequate liquidity and marketability of the invested funds. Additionally, ORS 294.035 sets forth diversification limitations. These limitations are applied on a fund-by-fund basis.

Corporate Indebtedness of "Oregon Issuer" (ORS 294.035(9)9C0):

No more than 35% of any association's fund

No more than 5% with any one single corporate entity

Corporate Indebtedness of "Outside Oregon Issuer" (ORS 294.035(9)(a)(b):

No more than 35% of any association's fund

No more than 5% with any one single corporate entity

#### Banker's Acceptances:

No more than 25% of any association's fund may be invested in banker's acceptances of any qualified financial institution

None of the investments in commercial paper exceeded 5%.

#### **ACCOUNTS RECEIVABLE**

Receivables as of year-end for the Association are as follows:

PERS Employer Alliance Professional services Rental revenue	\$ 68,985 146,826 73,765
Total Accounts Receivable	\$ 289,576

#### **CAPITAL ASSETS**

	Ju	<i>dy 1, 2009</i>	A	<i>ldditions</i>	 Deletions	Jui	ne 30, 2010
Land	\$	126,729	\$	-	\$ -	\$	126,729
Equipment		382,561		-	-		382,561
Automobiles		268,917		70,419	(90,944)		248,392
Building improvements		219,357			 		219,357
		997,564		70,419	(90,944)		977,039
Accumulated depreciation		(639,149)		(47,632)	90,944		(595,837)
	\$	358,415	\$	22,787	\$ 	\$	381,202

NOTES TO FINANCIAL STATEMENTS (Continued) YEAR ENDED JUNE 30, 2010

#### INVESTMENT IN LOCAL GOVERNMENT CENTER TRUST

The Local Government Center Trust was established by the Oregon School Boards Association, together with the League of Oregon Cities and the Association of Oregon Counties to hold title to jointly-owned property. Each organization is entitled to an undivided interest in properties held by the Trust according to the distribution ratio of the Declaration of Trust, as amended. Each organization is required to pay its proportionate share of expenditures for operation and maintenance of the building, reimbursements for other services provided, and monthly payments for reserve purposes.

The Association's investment in the Trust, at cost, consists of the following:

Cash on deposit	\$ 189,830
Accounts receivable	40,290
Land and improvements	216,141
Building	1,636,779
Furniture and equipment	71,699
Less depreciation	(644,984)
Accounts payable	 (28,695)
Total Investment in Local Government Center Trust	\$ 1,481,060

Separate financial statements for the Local Government Center Trust are available for the year ended June 30, 2010.

#### **PENSION PLAN**

#### Plan Description

The Association is a participating employer in the Oregon Public Employees Retirement System ("PERS"), a cost-sharing multiple-employer public employee retirement system established under Oregon Revised Statutes 238.600 that acts as a common investment and administrative agent for public employers in the State of Oregon. PERS is a defined benefit pension plan that provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to members and their beneficiaries. Benefits are established by state statute.

In the 2003 legislative session, the Oregon Legislative Assembly created a successor plan for PERS. The Oregon Public Service Retirement Plan ("OPSRP") is effective for all new employees hired on or after August 29, 2003. The new plan consists of a defined benefit program (the "Pension Program") and a defined contribution portion (the Individual Account Program or "IAP"). The Pension Program portion of OPSRP provides a life pension funded by employer contributions. Benefits are calculated by a formula for members who attain normal retirement age. The formula takes into account final average salary and years of service and a factor that varies based on type of service (general versus police or fire).

Beginning January 1, 2004, all PERS member contributions go into the IAP portion of OPSRP. PERS members retain their existing PERS accounts, but any future member contributions are deposited into the member's IAP, not the member's PERS account. Those employees who had established a PERS membership prior to creation of OPSRP will be members of both the PERS and OPSRP system as long as they remain in covered employment.

NOTES TO FINANCIAL STATEMENTS (Continued) YEAR ENDED JUNE 30, 2010

#### PENSION PLAN (Continued)

Plan Description (Continued)

Both PERS and OPSRP are administered by the Oregon Public Employees Retirement Board ("OPERB"). The comprehensive annual financial report of the funds administered by the OPERB may be obtained by writing to Oregon Public Employees Retirement System, P.O. Box 23700, Tigard, Oregon 97281-3700, by calling (503) 598-7377, or by accessing the PERS web site at www.oregon.gov/PERS.

#### Funding Policy

Employer contributions are required by state statute and made at actuarially determined rates as adopted by the OPERB. Covered employees are required by state statute to contribute 6.0% of their annual salary to the system, but the employer is allowed to pay the employees' contribution in addition to the required employers' contribution.

The Association has elected to contribute the 6.0% "pick-up" starting January 1, 2005.

In addition to the 6.0% "pick-up," the Association contributed 10.02% of covered payroll to PERS for the fiscal year ended June 30, 2010. This contribution rate was determined as part of the December 31, 2003 actuarial evaluation and was recalculated to reflect the impact of recently passed legislation (House Bills 2001, 2003, and 2004). Subject salary for the year was \$2,278,327 and the Association's total payroll was \$2,358,797.

Year EndedJune 30,	Employer <u>Contributions</u>		
2010	\$ 365,085	100%	
2009	474,915	100	
2008	446,433	100	

#### Funding Policy (Continued)

The Association's pension liability and the annual required contribution rate were determined using the entry age cost method. The unfunded actuarial liability ("UAL") created by this method, including gains and losses, is amortized as a level percentage of salary over a period commencing on the valuation date (2001, 2003, 2005, and 2007) and ending on December 31, 2027 using closed amortization. Beginning in 2007, each valuation's UAL will be amortized over 20 years, again using closed amortization. The actuarial assumptions include an investment return of 8.0% per year, projected salary increase of 3.75%, health cost inflation graded from 9.0% in 2007 to 5.0% in 2013, and a consumer price inflation component of 2.75%.

The OPERB utilizes a technique called asset smoothing to determine the actuarial value of assets. The actuarial value of assets are reported at fair market value, less a reserve equal to a pro-rata portion of the investment gains (losses) over the four-year period ending on the valuation date. Investment gains (losses), effective from January 1, 2000, are recognized at the rate of 25% per year. The actuarial value of assets is limited to a 10% corridor above and below the fair market value.

NOTES TO FINANCIAL STATEMENTS (Continued) YEAR ENDED JUNE 30, 2010

#### RELATED PARTY TRANSACTIONS

The following transactions occurred during the period beginning July 1, 2009 and ended June 30, 2010 between the Trust and other companies or individuals which were related through common ownership or management:

Amounts recognized as receivable from or payable to related parties for the year June 30, 2010:

Company Name	Type of Receivable/Payable	_	
Legal Assistance Trust	Accounts receivable	\$	68,795
OSBA Property and Casualty Coverage			
for Education	Accounts receivable		56,481
Local Government Center Trust	Accounts receivable		73,765
Local Government Center Trust	Accounts payable		15,350
Amounts recognized as revenues from related parti	es for the year June 30, 2010:		
Company Name	Type of Revenue	_	
Local Government Center Trust	Rental income	\$	109,333

#### SUBSEQUENT EVENTS

The Association adopted the provisions of Statement of Financial Accounting Standards ("SFAS") No. 165, "Subsequent Events" (ASC 855). ASC 855 establishes new accounting and disclosure requirements for subsequent events. Management has evaluated subsequent events through November 1, 2010, the date on which the financial statements were available to be issued. Management is not aware of any subsequent events that require recognition or disclosure in the financial statements

#### OREGON SCHOOL BOARDS ASSOCIATION LEGAL ASSISTANCE TRUST

The Oregon School Boards Association Legal Assistance Trust was created on January 20, 1990, between participating school districts and the Oregon School Boards Association. The Oregon School Boards Association serves as the trustee. The purpose of the Trust is to assist participating school districts in pursuing and financing the cost of litigation on issues or causes that generally affect or will affect public school districts in the State of Oregon.

#### Allowance for Doubtful Accounts

The Trust regularly reviews the collectability of accounts receivable and, when necessary, sets up on allowance for amounts which may not be collectable. The Trust has no receivables at June 30, 2010 and 2009, therefore an allowance for doubtful accounts was not deemed necessary.

#### **Income Taxes**

The Trust is exempt from Federal income taxes under Internal Revenue Code Section 115.

NOTES TO FINANCIAL STATEMENTS (Continued) YEAR ENDED JUNE 30, 2010

#### OREGON SCHOOL BOARDS ASSOCIATION LEGAL ASSISTANCE TRUST (Continued)

#### Deferred Revenue

The Trust reports unearned revenue on its balance sheets as deferred revenue. Deferred revenues arise when resources are received by the Trust before it has a legal claim to them, as when membership dues are received in advance. In subsequent periods, when revenue earning criteria is met, the liability for deferred revenue is removed from the balance sheet and revenue is recognized.

### Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reporting amounts of certain assets, liabilities, revenues and expenses as of and for the years ended June 30, 2010 and 2009. Actual results may differ from such estimates.

#### Cash and Cash Equivalents

On June 30, 2010, the Trust had the following cash and cash equivalents:

Demand deposits with financial institutions Investment in Local Government Investment Pool	\$ 32,485 535,793
Total Cash and Cash Equivalents	\$ 568,278

The Trust's deposits with various financial institutions had a bank value of \$32,610 at June 30, 2010.

#### Custodial Risk - Deposits

This is the risk that in the event of a bank failure, the Trust's deposits may not be returned. The Federal Depository Insurance Corporation (FDIC) provides insurance for the Trust's deposits with financial institutions up to \$250,000 each for the aggregate of all non-interest bearing accounts and the aggregate of all interest bearing accounts at each institution. At June 30, 2010, all deposits were covered by FDIC insurance. Deposits not covered by FDIC insurance are covered by the Public Funds Collateralization Program (PFCP) of the State of Oregon. The PFCP is a shared liability structure for participating bank depositories, better protecting public funds though still not guaranteeing that all funds are 100% protected. Barring any exceptions, a bank depository is required to pledge collateral valued at least 10% of their quarterend public fund deposits if they are well capitalized, 25% of their quarter-end public fund deposits if they are adequately capitalized, or 110% of their quarter-end public fund deposits if they are undercapitalized or assigned to pledge 110% by the Office of the State Treasurer. In the event of a bank failure, the entire pool of collateral pledged by all qualified Oregon public funds bank depositories is available to repay deposits of public funds of government entities.

#### Investments

The State Treasurer of the State of Oregon maintains the Oregon Short-Term Fund, of which the Local Government Investment Pool is part. Participation by local governments is voluntary. The State of Oregon investment policies are

NOTES TO FINANCIAL STATEMENTS (Continued) YEAR ENDED JUNE 30, 2010

#### OREGON SCHOOL BOARDS ASSOCIATION LEGAL ASSISTANCE TRUST (Continued)

#### **Investments** (Continued)

governed by statute and the Oregon Investment Council. In accordance with Oregon Statutes, the investment funds are invested as a prudent investor would do, exercising reasonable care, skill and caution. The Oregon Short-Term Fund is the LGIP for local governments and was established by the State Treasurer. It was created to meet the financial and administrative responsibilities of federal arbitrage regulations. The investments are regulated by the Oregon Short Term Fund Board and approved by the Oregon Investment Council (ORS 294.805 to 294.895). At June 30, 2010 and 2009, the fair value of the position in the Oregon State Treasurer's Short-Term Investment Pool was approximately equal to the value of the pool shares. Separate financial statements for the Oregon Short-Term Fund are available from the Oregon State Treasurer. The LGIP is not rated to credit quality.

#### Interest Rate Risk

In accordance with its investment policy, the Trust manages its exposure to declines in fair value of its investments by limiting the weighted average maturity of its investments through use of the Local Government Investment Pool.

#### Custodial Credit Risk - Investments

For an investment, this is the risk that, in the event of a failure of the counterparty, the Trust will not be able to recover the value of its investments or collateralized securities that are in the possession of an outside party.

The LGIP is administered by the Oregon State Treasury with the advice of other state agencies and is not registered with the U.S. Securities and Exchange Commission. The LGIP is an open-ended no-loan diversified portfolio offered to any agency, political subdivision, or public corporation of the state that by law is made the custodian of, or has control of any fund. The LGIP is commingled with the State's short-term funds. In seeking to best serve local governments of Oregon, the Oregon Legislature established the Oregon Short Term Fund Board, which has established diversification percentages and specifies the types and maturities of the investments. The purpose of the Board is to advise the Oregon State Treasury in the management and investment of the LGIP. These investments within the LGIP must be invested and managed as a prudent investor would, exercising reasonable care, skill and caution. Professional standards indicate that the investments in external investment pools are not subject to custodial risk because they are not evidenced by securities that exist in physical or book entry form. Nevertheless, management does not believe that there is any substantial custodial risk related to investments in the LGIP.

#### Related Party Transactions

During the year ended June 30, 2010, the Trust paid \$156,408 (accrued in the year ended June 30, 2009) and accrued expenses of \$68,795 to the Oregon School Boards Association for reimbursement of legal fees paid by the Oregon School Boards Association on behalf of the Public Employer's Defense Alliance.

#### OREGON SCHOOL BOARDS ASSOCIATION PROPERTY AND CASUALTY TRUST

The Oregon School Boards Association Property and Casualty Trust is an unincorporated entity created by the Oregon School Boards Association on June 18, 1988. The Board of Directors of Oregon School Boards Association Property and Casualty Trust are appointed by the Board of Directors of Oregon School Boards Association. The Trust pays a fee to OSBA for administration.

NOTES TO FINANCIAL STATEMENTS (Continued) YEAR ENDED JUNE 30, 2010

#### OREGON SCHOOL BOARDS ASSOCIATION PROPERTY AND CASUALTY TRUST (Continued)

#### Trust Events

Effective April 26, 2010, the OSBA Property & Casualty Trust was liquidated. The remaining assets, liabilities and net assets were transferred to Oregon School Boards Association Property and Casualty Coverage for Education (PACE).

#### Premiums

Premiums are taken into income as earned over the term of related insurance policies. Policies are generally written for the annual period from July 1 through June 30; therefore, the Trust has no unearned premiums at June 30, 2010.

#### Claims and Claims Adjustment Expenses

Unpaid losses and loss adjustment expense have been estimated based upon an actuarial study of the program prepared by the Trust's consulting actuary. The Trust establishes claims liabilities based on estimates of the ultimate cost of claims (including future claims adjustment expenses) that have been reported but not settled, and claims that have been incurred but not reported. The length of time for which such costs must be estimated varies depending on the coverage involved. Estimated salvage and subrogation and reinsurance recoverable on unpaid claims are deducted from the liability for unpaid claims. Because actual claims costs depend on several complex factors, the process used in computing claims liabilities does not necessarily result in an exact amount. Claims liabilities are recomputed periodically using a variety of techniques to produce current estimates that reflect recent settlements, claims frequency, and other economic and social factors. Adjustments to claims liabilities are charged or credited to expense in the periods in which they are made.

#### Self-Insurance Limits

The Trust has established a \$500,000 self-insurance limit. The self-insurance pool provides for the first \$500,000 of each claim for general liability, property, automobile, errors and omissions, and other miscellaneous coverages.

Individual claims in excess of the \$500,000 self-insurance pool are covered by reinsurance.

#### Cash and Cash Equivalents

On June 30, 2010, the Trust had no cash and cash equivalents.

#### Claims and Claims Adjustment Expenses Payable

The Trust has established a liability for both reported and unreported insured events, which includes estimates of both future payments of losses and related claims adjustment expenses. The liability is based on an actuarial study of the program prepared by the Trust's consulting actuary. The liability for unpaid claims and claims adjustment expenses has not been discounted and does not reflect a reduction for future interest income which will be available to meet the Trust's claims payment obligations.

NOTES TO FINANCIAL STATEMENTS (Continued) YEAR ENDED JUNE 30, 2010

#### OREGON SCHOOL BOARDS ASSOCIATION PROPERTY AND CASUALTY TRUST (Continued)

#### Claims and Claims Adjustment Expenses Payable (Continued)

The following represents changes in those aggregate liabilities for the Trust during the past year:

Claims and Claims Adjustment Expenses Payable at Beginning of Year	\$ 851,170
Incurred claims and claims adjustment expenses: Increase (decrease) in provision for prior years	33,058
Incurred claims and claims adjustment payments: Claims and claims adjustment expenses attributable to insured events of prior years	469,411
Transfers: Transfer to PACE	 414,817
Claims and Claims Adjustment Expenses Payable at End of Year	\$ -

#### OREGON SCHOOL BOARDS ASSOCIATION PROPERTY & CASUALTY COVERAGE FOR EDUCATION

The Oregon School Boards Association Property and Casualty Coverage for Education Trust is an unincorporated entity created by the Oregon School Boards Association. The Board of Directors of Oregon School Boards Association Property and Casualty Coverage for Education Trust are appointed by the Board of Directors of Oregon School Boards Association. The Trust pays a fee to OSBA for administration.

#### **Premiums**

Premiums are taken into income as earned over the term of related insurance policies. Policies are generally written for the annual period from July 1 through June 30. As of June 30, 2010, the Trust held unearned premiums in the amount of \$572,477.

#### Claims and Claims Adjustment Expenses

Unpaid losses and loss adjustment expense have been estimated based upon an actuarial study of the program prepared by the Trust's consulting actuary. The Trust establishes claims liabilities based on estimates of the ultimate cost of claims (including future claims adjustment expenses) that have been reported but not settled, and claims that have been incurred but not reported. The length of time for which such costs must be estimated varies depending on the coverage involved. Estimated salvage and subrogation and reinsurance recoverable on unpaid claims are deducted from the liability for unpaid claims. Because actual claims costs depend on several complex factors, the process used in computing claims liabilities does not necessarily result in an exact amount.

Claims liabilities are recomputed periodically using a variety of techniques to produce current estimates that reflect recent settlements, claims frequency, and other economic and social factors. A provision for inflation in the calculation of estimated future claims costs is implicit in the calculation because reliance is placed on both the actual historical data that reflect past inflation and on other factors that are considered to be appropriate modifiers of past experience. Adjustments to claims liabilities are charged or credited to expense in the periods in which they are made.

NOTES TO FINANCIAL STATEMENTS (Continued) YEAR ENDED JUNE 30, 2010

# OREGON SCHOOL BOARDS ASSOCIATION PROPERTY & CASUALTY COVERAGE FOR EDUCATION (Continued)

#### Self-Insurance Limits

The Trust has established a \$600,000 general labiality and a \$250,000 property self-insurance limit. The self-insurance pool provides for the first \$600,000 of each general liability claim and the first \$250,000 of property, automobile, errors and omissions, and other miscellaneous coverages.

#### Cash and Cash Equivalents

On June 30, 2010, the Trust had the following cash and cash equivalents:

Demand deposits with financial institutions Investment in Local Government Investment Pool	\$ 266,392 285,204
Total Cash and Cash Equivalents	\$ 551,596

At June 30, 2010, the Trust's deposits with various financial institutions had a bank value of \$646,602.

#### Custodial Credit Risk - Deposits

This is the risk that in the event of a bank failure, the Association's deposits may not be returned. The Federal Depository Insurance Corporation (FDIC) provides insurance for the Association's deposits with financial institutions up to \$250,000 each for the aggregate of all non-interest bearing accounts and the aggregate of all interest bearing accounts at each institution. Deposits not covered, if any, are covered by the Public Funds Collateralization Program (PFCP) of the State of Oregon. The PFCP is a shared liability structure for participating bank depositories, better protecting public funds though still not guaranteeing that all funds are 100% protected. Barring any exceptions, a bank depository is required to pledge collateral valued at least 10% of their quarter-end public fund deposits if they are well capitalized, 25% of their quarter-end public fund deposits if they are adequately capitalized, or 110% of their quarter-end public fund deposits if they are undercapitalized or assigned to pledge 110% by the Office of the State Treasurer. In the event of a bank failure, the entire pool of collateral pledged by all qualified Oregon public funds bank depositories is available to repay deposits of public funds of government entities.

The LGIP is administered by the Oregon State Treasury with the advice of other state agencies and is not registered with the U.S. Securities and Exchange Commission. The LGIP is an open-ended no-loan diversified portfolio offered to any agency, political subdivision, or public corporation of the state that by law is made the custodian of, or has control of any fund. The LGIP is commingled with the State's short-term funds. In seeking to best serve local governments of Oregon, the Oregon Legislature established the Oregon Short Term Fund Board, which has established diversification percentages and specifies the types and maturities of the investments. The purpose of the Board is to advise the Oregon State Treasury in the management and investment of the LGIP. These investments within the LGIP must be invested and managed as a prudent investor would, exercising reasonable care, skill and caution. Professional standards indicate that the investments in external investment pools are not subject to custodial risk because they are not evidenced by securities that exist in physical or book entry form. Nevertheless, management does not believe that there is any substantial custodial risk related to investments in the LGIP.

NOTES TO FINANCIAL STATEMENTS (Continued) YEAR ENDED JUNE 30, 2010

# OREGON SCHOOL BOARDS ASSOCIATION PROPERTY & CASUALTY COVERAGE FOR EDUCATION (Continued)

#### Investments

At June 30, 2010, the Trust's investment balances were as follows:

					Investment Maturities			
Description	 Face Amount		Fair Value		Less than 18 months		18-60 months	
Federal Government Obligations	\$ 4,476,639	\$	4,476,639	\$	4,476,639	\$	-	
Bank of America - 7.4%, due 1/15/2011	1,040,288		1,029,643		1,029,643		-	
Bank One - 7.875%, due 8/01/2010	509,646		502,231		502,231		-	
FFCB - 2%, due 9/10/2012	1,000,000		1,003,125		-		1,003,125	
FHLMC - 3%, due 2/17/2015	1,000,000		1,003,385		-		1,003,385	
FHLMC - 3%, due 4/15/2015	1,000,000		1,016,466		-		1,016,466	
FNMA - 2%, due 12/3/2012	1,000,004		1,006,250		-		1,006,250	
FNMA - 3%, due 10/23/2014	1,000,000		1,001,562		-		1,001,562	
FHLB - 3%, due 10/06/2014	1,000,000		1,006,875		-		1,006,875	
FHLB - 3%, due 3/02/2015	1,000,000		1,004,375		-		1,004,375	
FHLB - 3%, due 4/15/2015	1,000,000		1,000,937		-		1,000,937	
FHLB - 3%, due 5/11/2015	1,700,000		1,704,250		-		1,704,250	
FHLB - 3.1%, due 4/27/2015	480,000		480,900		-		480,900	
FHLB - 3.25%, due 8/26/2014	1,011,361		1,032,188		-		1,032,188	
GE - 1.307%, due 8/15/2011	466,254		497,524		497,524		-	
GE - 3.75%, due 11/14/2014	511,409		511,492		-		511,492	
JP Morgan Chase - 3.7%, due 1/20/2015	506,260		511,423		-		511,423	
Key Bank - 5.5%, due 9/17/2012	1,041,246		1,064,914		-		1,064,914	
Mellon Bank - 5.0%, due 12/01/2014	1,087,667		1,091,761		-		1,091,761	
Merrill Lynch - 5.45%, due 2/5/2013	534,012		524,519		-		524,519	
Rabobank - 3.2%, due 3/11/2015	999,530		1,011,047		-		1,011,047	
US Bank - 4.95%, due 10/30/2014	1,087,681		1,089,784		-		1,089,784	
Wells Fargo - 3.75%, due 10/1/2014	1,020,310		1,023,830				1,023,830	
Total		\$	24,595,120	\$	6,506,037	\$	18,089,083	

### Accounts Receivable

Accounts receivable as of June 30, 2010 consist of the following:

Contributions receivable	\$ 75,539
Reinsurance receivable	951,419
Total Accounts Receivable	\$ 1,026,958

NOTES TO FINANCIAL STATEMENTS (Continued) YEAR ENDED JUNE 30, 2010

# OREGON SCHOOL BOARDS ASSOCIATION PROPERTY & CASUALTY COVERAGE FOR EDUCATION (Continued)

### Claims and Claims Adjustment Expenses Payable

The Trust has established a liability for both reported and unreported insured events, which includes estimates of both future payments of losses and related claims adjustment expenses. The liability is based on an actuarial study of the program prepared by the Trust's consulting actuary. Administration fees for unresolved claims was estimated at \$698,365 and included in claims payable.

The liability for unpaid claims and claims adjustment expenses has not been discounted and does not reflect a reduction for future interest income which will be available to meet the Trust's claims payment obligations. The following represents changes in those aggregate liabilities for the Trust during the past year:

Claims and claims adjustment expense payable at beginning of year	\$	9,632,355
PACT beginning claims expense from merger	_	447,875
Total Claims and Claims Adjustment Expenses Payable		10,080,230
Provisions for insured events of the current year Increase (decrease) in provision for prior years Provision for ULAE	_	6,951,602 (1,129,263) 48,365
Total Incurred Claims and Claims Adjustment Expenses		5,870,704
Incurred claims and claims adjustment payments: Claims and claims adjustment expenses attributable to insured events of the current year Claims and claims adjustment expenses attributable to insured events of prior years	_	(2,422,022) (2,533,182)
Total Incurred Claims and Claims Adjustment Payments		(4,955,204)
Claims and Claims Adjustment Expenses Payable at End of Year	\$	10,995,730

#### Claims and Administrative Services Agreements

The Trust receives professional insurance management and support services from Special Districts Association of Oregon. The expense for services provided under contract during the year ended June 30, 2010 was \$1,225,000.

The Trust also receives administration and support services from Oregon School Boards Association. The expense for these services provided under contract for the year ended June 30, 2010 was \$304,400.



 $SCHEDULE\ OF\ REVENUES,\ EXPENDITURES\ AND\ CHANGES\ IN\ FUND\ BALANCE\ -BUDGET\ AND\ ACTUAL$ 

YEAR ENDED JUNE 30, 2010

	Original Budget	Final Budget	Variance	Actual
REVENUES				
Membership dues	\$ 684,630	\$ 684,630	\$ 15,989	\$ 700,619
Interest	2,110,000	2,110,000	409,855	2,519,855
Insurance trusts management fees	328,000	328,000	5,954,402	6,282,402
Convention and conference	95,100	95,100	(17,063)	78,037
Sale of publications	158,100	158,100	20,044	178,144
Contract services	812,000	812,000	199,387	1,011,387
Rental income	105,000	105,000	28,713	133,713
Sale of automobiles	-	=	16,511	16,511
Gain/loss on investments	-	=	179,576	179,576
Miscellaneous income	25,000	25,000	(15,012)	9,988
Total Revenues	4,317,830	4,317,830	6,792,402	11,110,232
EXPENDITURES				
Personnel Services				
Salaries	2,291,924	2,291,924	(66,873)	2,358,797
Payroll assessment	1,130,641	1,130,641	25,505	1,105,136
Contract services/other	75,000	75,000	(19,334)	94,334
Total Personnel Services	3,497,565	3,497,565	(60,702)	3,558,267
Legislative				
Legislative committee	12,000	12,000	(3,954)	15,954
Legislative report	22,000	22,000	21,746	254
Total Legislative	34,000	34,000	17,792	16,208
Travel				
Officers and committee	190,000	190,000	66,648	123,352
Staff	26,000	26,000	(51,124)	77,124
Automobile expense	40,000	40,000	14,034	25,966
Automobile purchase	40,000	40,000	(30,419)	70,419
Total Travel	296,000	296,000	(861)	296,861
Professional Development	80,000	80,000	14,712	65,288

	Original Budget	Final Budget	Variance	Actual
EXPENDITURES (Continued)	 3	3		
Publications				
Critical issues	\$ 5,000	\$ 5,000	\$ 5,000	\$ -
Superintendent search	6,000	6,000	1,618	4,382
PR in action	3,150	3,150	(1,545)	4,695
Flyers and brochures	=	-	(270)	270
Outside printing	2,500	2,500	2,500	-
Miscellaneous publications	 15,500	15,500	13,990	 1,510
Total Publications	32,150	32,150	21,293	10,857
Office Expense				
Audit, insurance, bonds	80,000	80,000	(317)	80,317
Telephone and video conferencing	16,000	16,000	5,853	10,147
Postage	55,000	55,000	27,017	27,983
Supplies and photocopies	115,950	115,950	25,078	90,872
Equipment maintenance	16,500	16,500	4,327	12,173
Equipment purchase	 26,000	26,000	8,217	17,783
Total Office Expense	309,450	309,450	70,175	239,275
Dues and Subscriptions				
National School Boards Association	78,544	78,544	2,962	75,582
Other	 47,000	47,000	1,785	45,215
Total Dues and Subscriptions	125,544	125,544	4,747	120,797
Building and Lot				
Building operations	110,000	110,000	7,157	102,843
Building reserve	12,000	12,000	<u>-</u>	12,000
Total Building and Lot	122,000	122,000	7,157	114,843
Board of Directors Projects	47,000	47,000	18,426	28,574
Legal Fees	15,000	15,000	12,978	2,022
Technical Connections	3,500	3,500	198	3,302

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (Continued)
YEAR ENDED JUNE 30, 2010

	Original Budget		 Final Budget	Variance		Actual	
Contingency	\$	45,000	\$ 45,000	\$	45,000	\$	
Total Expenditures		4,607,209	4,607,209		150,915		4,456,294
REVENUES OVER (UNDER) EXPENSES		(289,379)	(289,379)		6,943,317		6,653,938
FUND BALANCE,  Beginning of year		3,175,199	3,175,199		68,079,080		71,254,279
<b>FUND BALANCE,</b> End of year	\$	2,885,820	\$ 2,885,820	\$	75,022,397	\$	77,908,217



SCHEDULE OF AMOUNTS DUE TO OTHERS YEAR ENDED JUNE 30, 2010

OREGON COUNCIL OF SCHOOL ATTORNEYS	
Revenues: Dues	\$ 8,650
Expenditures Dues Other	11,020 810
Total Expenditures	11,830
Revenues in excess of expenditures	(3,180)
Balance - July 1, 2009	23,995
Balance - June 30, 2010	\$ 20,815
OREGON SCHOOL SAFETY OFFICERS ASSOCIATION	
Revenues: Dues Annual meetings Sponsorships	\$ 3,600 600 100
Total Revenues	4,300
Expenditures Conferences and meeting expense Other	 802 3,734
Total Expenditures	4,536
Revenues in excess of expenditures	(236)
Balance - July 1, 2009	 8,304
Balance - June 30, 2010	\$ 8,068

## PERS EMPLOYER ALLIANCE Revenues: Litigation fees \$ 68,795 Expenditures Legal 105,466 2,515 Other Total Expenditures 107,981 Revenues in excess of expenditures (39,186) **Balance - July 1, 2009** 92,698 Balance - June 30, 2010 53,512 \$





CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS 475 Cottage Street NE, Suite 200, Salem, Oregon 97301 (503) 581-7788

# INDEPENDENT AUDITOR'S REPORT REQUIRED BY OREGON STATE REGULATIONS

Board of Directors Oregon School Boards Association Salem, Oregon

We have audited the basic financial statements of the Oregon School Boards Association as of and for the year ended June 30, 2010, and have issued our report thereon dated November 1, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America.

### **Compliance**

As part of obtaining reasonable assurance about whether the Association's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, including the provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules 162-10-000 through 162-10-320 of the Minimum Standards for Audits of Oregon Municipal Corporations, noncompliance with which could have a direct and material effect on the determination of financial statements amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

We performed procedures to the extent we considered necessary to address the required comments and disclosures which included, but were not limited to the following:

- Deposit of public funds with financial institutions (ORS Chapter 295).
- Budgets legally required (ORS Chapter 294.900).
- Insurance and fidelity bonds in force or required.
- Programs funded from outside sources.
- Authorized investment of surplus funds (ORS Chapter 294).
- Public contracts and purchasing (ORS Chapters 279A, 279B, 279C).
- Accountability for collecting or receiving money by elected officials no money was collected or received by elected officials

In connection with our testing nothing came to our attention that caused us to believe the Association was not in substantial compliance with certain provisions of laws, regulations, contracts, and grants, including the provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules 162-10-000 through 162-10-320 of the Minimum Standards for Audits of Oregon Municipal Corporations.

#### OAR 162-10-0230 Internal Control

In planning and performing our audit, we considered the Association's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Association's internal control over financial reporting. We issued our communication to the Board of Directors concerning significant deficiencies in internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. A material weakness is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

We issued to management our separate letter describing several significant deficiencies in internal control.

This report is intended solely for the information and use of the board of directors/council members/commissioners and management of the Oregon School Boards Assocation and the Oregon Secretary of State and is not intended to be and should not be used by anyone other than these parties.

GROVE, MUELLER & SWANK, P.C. CERTIFIED PUBLIC ACCOUNTANTS

By: Charles A. Swank, A Shareholder
November 1, 2010